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Report to the Chairman and Ranking
Member, Subcommittee on Defense,
Committee on Appropriations, U.S.
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June 2000

DEFENSE BUDGET

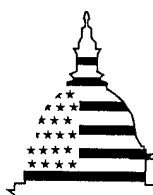
Fiscal Year 2000 Contingency Operations Costs and Funding



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National Security and
International Affairs Division

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June 6, 2000

The Honorable Ted Stevens
Chairman
The Honorable Daniel K. Inouye
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

In a March 1999 report to Congress, the Department of Defense (DOD) reported that since the end of the Persian Gulf War in February 1991, U.S. military forces had conducted or participated in approximately 50 overseas contingency operations involving the deployment of 500 or more military personnel at any one time. These operations included noncombatant evacuation operations, no-fly zone enforcement, humanitarian assistance, and peace enforcement operations.

In fiscal year 2000, U.S. military forces have participated or are participating in a number of contingency operations. The largest of these are in the Balkans (Bosnia and Kosovo) and Southwest Asia, where incremental costs have totaled about \$21.3 billion since they began in 1991 through March 2000.¹ In response to your request, we (1) identified DOD's incremental contingency operations costs and funding for all ongoing fiscal year 2000 contingency operations and (2) assessed how DOD components identify incremental costs in support of contingency operations.² We are also providing information on the need for, and average cost of, mission rehearsal exercises conducted by the Army in preparation for contingency deployments.

¹As used in this report, "incremental costs" means those costs that would not have been incurred if it were not for the operation. It should be recognized that DOD's financial systems cannot reliably determine costs and that only the total obligations are captured by the accounting systems. The services use various management information systems to identify incremental obligations and to estimate costs. Although we use the term costs throughout this report as a convenience, we are actually referring to DOD's obligation of funds.

²DOD components include the four military services and smaller defense components that also have a supporting role in the contingency operations, such as the Defense Information Systems Agency, the National Security Agency, and the Special Operations Command.

Results in Brief

DOD estimates all ongoing contingency operations in fiscal year 2000 will cost \$4.7 billion, with operations in the Balkans and Southwest Asia accounting for over 99 percent of that total. To date, DOD has received about \$2.65 billion for fiscal year 2000 contingency operations. Congress appropriated \$396 million directly to the services' military personnel accounts. The remaining \$2.3 billion came from the Overseas Contingency Operations Transfer Fund, which Congress created to provide funding to DOD components for contingency costs. As of April 2000, all funding available in the Overseas Contingency Operations Transfer Fund had been transferred to DOD components. In February 2000, the President submitted a request for an emergency supplemental appropriation of about \$2.05 billion for contingency operations in Kosovo and East Timor for fiscal year 2000. The supplemental request is pending. The military services reported in March that their original cost estimates were still valid; however, as of May 2000 there were about 1,000 fewer troops in the Balkans than planned, which could result in lower fiscal year 2000 costs. Nevertheless, if the supplemental is not enacted, Army officials report that they will have to reduce overall operation and maintenance spending in late July to cover the shortfall in contingency operations costs. The other services report similar situations.

We have two concerns regarding how the services identify incremental costs in support of contingency operations. First, the Air Force and the Navy's Atlantic and Pacific Fleets use different methodologies to calculate their costs for flying hours in support of contingencies. The DOD regulation on contingency operations costs permits different methodologies, but this practice results in different rates of reimbursement for similar levels of activity.³ Second, the Air Force is seeking \$47.2 million in the supplemental appropriation request to repair or restore infrastructure used during contingency operations in Kosovo. No other service is seeking similar reimbursement in the budget request. DOD's regulation does not provide for whether maintenance of home station infrastructure can be an allowable incremental cost. However, DOD officials believe that some home station costs may be attributable to contingency operations and plan to revise the regulation.

³DOD Financial Management Regulation, vol. 12, chap. 23, Contingency Operations (Mar. 1999).

Army mission rehearsal exercises are conducted to prepare units for conditions they are likely to encounter during contingencies. Because the skills taught are specific to the deployment and differ from ordinary training tasks, the Army considers the exercise cost an incremental cost of the contingency. Exercise costs—which average about \$9-\$15 million—are offset against the costs that would have been incurred for other exercises or training that the units had scheduled before the deployment was tasked but which were canceled or modified due to the deployment.

This report contains recommendations that would improve DOD's identification of incremental contingency operation costs to ensure costs are identified, estimated, and reported consistently. DOD officials provided oral comments on a draft of this report and generally agreed with the information presented and with our recommendations. We incorporated their comments where appropriate.

Background

In fiscal year 2000, U.S. military forces are participating or have participated in a number of contingency operations, and DOD is seeking reimbursement for costs incurred in operations in the Balkans, Southwest Asia, and East Timor. The largest ongoing contingency operations are in the Balkans and Southwest Asia. From the beginning of U.S. military involvement in the Balkans in 1992 through March 2000, DOD has reported \$13.82 billion in incremental costs. From 1991 through March 2000, DOD has reported \$7.44 billion in incremental costs for Southwest Asia operations.

U.S. involvement in the Balkans began in July 1992 as part of humanitarian relief efforts in Bosnia, Herzegovina, and Croatia and expanded in April 1993, when the United States began to participate in North Atlantic Treaty Organization (NATO) enforcement of a no-fly zone over Bosnia and Herzegovina. In December 1995, U.S. troops deployed as part of a multilateral coalition under NATO command in and around Bosnia to assist in implementing the General Framework Agreement (also known as the Dayton Agreement). The number of U.S. military personnel in Bosnia as part of the NATO force has steadily declined, from about 18,000 in February 1996, to about 6,900 in October 1998, to about 4,300 in April 2000. In addition to U.S. military personnel in Bosnia, there are also about 600 U.S. military personnel stationed in the nearby countries of Hungary, Croatia, and Italy in support of Bosnia operations.

In June 1999, the United States began providing troops to the NATO-led Kosovo Force, whose mission is peace enforcement in Kosovo. The United States is currently providing about 5,500 troops as part of the NATO force. In addition, the United States has about 670 troops in Macedonia to operate a staging base for U.S. troops entering and departing Kosovo.

U.S. forces have been involved in enforcing a no-fly zone in Southwest Asia since the end of the Persian Gulf War. The size of the U.S. force varies substantially depending on the level of tension with Iraq. According to DOD budget documents, there are about 30,000 personnel in the area, many of them Navy and Marine Corps personnel deployed on ships. Since the fall of 1999, about 500 U.S. troops have also been participating in some small humanitarian and civic assistance activities in East Timor.

DOD budgets for the cost of ongoing contingency operations, and Congress has appropriated funds for these operations to the services' military personnel accounts and the Overseas Contingency Operations Transfer Fund, which Congress created to provide funding to DOD components for contingency costs. DOD transfers funds out of the Overseas Contingency Operations Transfer Fund to the DOD components' appropriation accounts as operations unfold during the year. Any monies remaining in the Fund at the end of a fiscal year can be carried over to the next fiscal year. In the case of new, expanded, or otherwise unfunded operations, such as the operations involving Kosovo and East Timor, costs are not budgeted in advance. DOD components borrow funds from other budgeted activities that are planned for later in the fiscal year. If these funds are not replenished through supplemental appropriations or reprogramming of previously appropriated funds, then the components have to absorb the costs within their regular appropriations.

DOD's Fiscal Year 2000 Contingency Operations Costs and Funding May Create Challenges

DOD estimates that it will need \$4.7 billion to fund contingency operations in fiscal year 2000. It has received funding for Bosnia and Southwest Asia, and the President has submitted an emergency supplemental appropriation request to fund operations in Kosovo and East Timor. This request is pending and, if not passed, could cause the DOD components to curtail other planned activities in order to fund contingency operations. The military services reported in March that their original cost estimates were still valid. However, there are currently fewer troops than originally planned in Bosnia and Kosovo, which could result in lower fiscal year 2000 costs.

Estimated Incremental Costs Are Primarily for Operation and Maintenance Activities

According to DOD's fiscal year 2000 budget submission, ongoing contingency operations in fiscal year 2000 are estimated to cost \$4.7 billion (see table 1). On an operational basis, about \$3.63 billion (77 percent) is for Balkans operations. Most of the remainder is for Southwest Asia, with \$25 million planned for operations in East Timor.

Table 1: Fiscal Year 2000 Estimated Incremental Costs for DOD Contingency Operations

Dollars in millions

	Military personnel	Operation and maintenance	Total
Bosnia	\$214.3	\$1,388.7	\$1,603.0
Kosovo	191.8	1,833.6	2,025.4
Total Balkans	\$406.1	\$3,222.3	\$3,628.4
Southwest Asia	138.0	913.3	1,051.3
East Timor	0	25.0	25.0
Total	\$544.1	\$4,160.6	\$4,704.7

Source: DOD's supporting documentation to the President's fiscal year 2000 budget submission.

On an appropriation account basis, operation and maintenance continues to represent the bulk of contingency costs—about \$4.16 billion (88 percent) of the total \$4.7 billion in estimated contingency operations costs. Operation and maintenance funds are used for a variety of purposes, including transportation of personnel, goods, and equipment; unit operating support costs; and intelligence, communications, and logistics support. The remaining \$544 million (12 percent) is for military personnel accounts, which fund the pay and allowances of mobilized reservists and special payments or allowances for all qualifying military personnel, such as Imminent Danger Pay (\$150 per month) and Family Separation Allowance (\$75 per month).

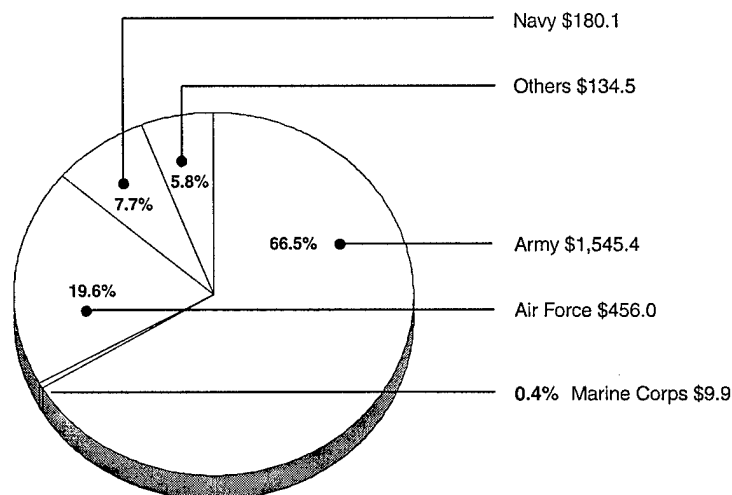
Actual Costs May Be Less Than Initially Estimated Based on Decline in Troop Levels in the Balkans

DOD tracks the incremental costs of contingency operations and prepares monthly contingency operations cost reports. The most recent report details costs incurred through March 2000. Reported costs through March total over \$2.3 billion in incremental costs for all contingency operations in which U.S. military forces have been involved in fiscal year 2000 and represent about 49 percent of DOD's full-year estimate. The Army has

incurred the majority of the costs—about 66 percent—with the Air Force having the next highest costs—about 20 percent (see fig. 1). DOD components have incurred costs of about \$1.7 billion in the Balkans and about \$542 million in Southwest Asia. The remaining costs are attributable to other small operations such as East Timor and disaster relief efforts in Mozambique and Venezuela.

Figure 1: DOD Contingency Operations Costs by Component for Fiscal Year 2000 as of March 31, 2000

Dollars in millions



Total - \$2,325.9

Source: DOD Contingency Operations Cost Report for March 2000.

DOD separates the almost \$2.326 billion in reported incremental costs into five categories: military personnel, civilian personnel, personnel support, operating support, and transportation. The last four categories are funded from the operation and maintenance appropriation. The operating support category, which accounts for costs relating to operation tempo, base support, and reconstitution, has the highest costs—over \$1 billion, or about 71 percent of the costs through March 2000. The next highest category is military personnel, which total about 11 percent. Transportation, about 9 percent, and personnel support, about 9 percent, are the next highest

categories. Civilian personnel costs account for less than 1 percent of the total.⁴

As of March 2000, DOD was reporting that its original fiscal year 2000 cost estimate was still valid, although cost reports through March 2000 suggest costs could be higher. At the same time, as of May 2000, there were about 1,000 fewer U.S. troops in the Balkans than originally assumed, which suggests that costs could be lower than originally estimated. Our analysis of fiscal year 2000 costs for all DOD components through March 2000, the latest data available, suggests that as of the middle of the fiscal year costs were exceeding estimates by about \$140 million. The Army's costs exceeded estimates by about \$117 million and the Navy's costs exceeded estimates by about \$21 million, while the Air Force's costs were about \$67 million below estimates. In discussing our analysis with DOD officials, they said that while the cost reports are a useful tool, they have limitations at this point in the fiscal year. For example, they said that some services have contracts where annual costs are obligated at the beginning of the fiscal year, although they will be incurred throughout the year. Therefore, in a March 2000 report to the Senior Readiness Oversight Council, the services indicated that their initial estimates were still valid. However, there are about 700 fewer troops in Kosovo than originally planned and 300 fewer in Bosnia, most of whom were support troops whose tasks have now been taken on by contractors. Army officials expect that current troop levels will remain unchanged for the balance of the fiscal year. Therefore, unless contractors incur sufficiently higher costs to offset the savings generated by lower troop levels as they take on tasks now performed by troops, we believe that full fiscal year 2000 costs at the end of the fiscal year could be less than originally estimated.

DOD's budget for operations in East Timor was limited to \$25 million by the Office of Management and Budget. However, DOD's cost reports through March 2000 show total costs for this operation at almost \$54 million. Therefore, if the \$25 million included in the emergency supplemental for East Timor is appropriated, the services will have to absorb the costs incurred above the \$25-million limit within their regular appropriations. For example, the Marine Corps will have to absorb about \$6.9 million in operation and maintenance costs for this operation.

⁴Numbers do not add due to rounding.

If Supplemental Funding is Not Received, Fiscal Year 2000 Contingency Funding May Prove Challenging for DOD

DOD had received about \$2.65 billion in fiscal year 2000 funding for contingency operations in Bosnia and Southwest Asia as of May 2000. Funding came from several sources (see table 2).

Table 2: Fiscal Year 2000 Funding for DOD Contingency Operations

Dollars in millions	
Appropriated to Military Personnel Account	\$ 396 ^a
Overseas Contingency Operations Transfer Fund	
Fiscal year 2000 beginning balance	\$ 544 ^b
Fiscal year 2000 appropriation	1,714
Total available in fiscal year 2000	\$2,258
Total available to DOD	\$2,654
Emergency supplemental (pending)	\$2,050

^aIncludes military personnel funding for Bosnia and Southwest Asia only.

^bThis amount remained in the Overseas Contingency Operations Transfer Fund at the end of fiscal year 1999.

As of April 2000, the full \$2.258 billion in the Transfer Fund had been transferred to DOD components to pay for contingency operations costs to date. The Army received \$1.434 billion; the Air Force, \$620.9 million; the Navy, \$70.5 million; the Marine Corps, \$1.6 million; and other DOD components, \$130.8 million.

Congress did not include funds for ongoing Kosovo operations in the fiscal year 2000 DOD Appropriations Act, and operations in East Timor began after the act was passed. Therefore, the President submitted an emergency supplemental appropriation request to Congress in February 2000 for these two operations. This request, if enacted as submitted, would provide about \$2.05 billion—\$25 million for operations in East Timor and the remainder for operations in Kosovo. These operations have been ongoing since the beginning of the fiscal year, and DOD components will have to use their regular appropriated funds to pay for costs incurred for these operations after funds from the Transfer Fund are exhausted. If the emergency supplemental request is not passed, DOD components will have to absorb any funding shortfalls within their regular appropriations by canceling or deferring other planned spending. Such actions could involve canceling training exercises, deferring depot maintenance, and canceling or deferring spare parts purchases.

The Army, which estimated that it would need about \$2.7 billion in funding from the Overseas Contingency Operations Transfer Fund for fiscal year 2000, will be affected more than the other services if the supplemental request is not enacted.⁵ It has received \$1.434 billion from the Transfer Fund, leaving a shortfall of about \$1.3 billion for the fiscal year.⁶ U.S. Army, Europe, which bears the bulk of the costs for the Balkans operations, estimates that absorbing the shortfall within its operation and maintenance account will deplete that account by early July 2000. If the shortfall is spread across the entire Army operation and maintenance account, the Army projects that it will run out of funds by late July. Decisions to cancel training exercises, most of which cannot be rescheduled, will have to be made in mid-June because of transportation scheduling deadlines. According to Army officials, canceling training could affect readiness.

The other services will have to similarly absorb some contingency costs. The Air Force estimated that it would need \$856.1 million but has received only \$620.9 million from the Transfer Fund, leaving a shortfall of \$235.2 million. If it absorbs the shortfall, the Air Force projects that it will run out of funds for its flying hour program in mid-August, which could stop the Air Force from conducting training. The Navy's total requirement is about \$273.1 million, and it has received about \$70.5 million from the Transfer Fund, for a shortfall of \$202.6 million. The Navy plans to delay the overhaul of a submarine that is scheduled to begin in June and to make other decisions to curtail planned activities as the year progresses. The Marine Corps' total requirement is about \$12.2 million, and it has received \$1.6 million from the Transfer Fund and \$170,000 from other sources, for a shortfall of \$10.4 million.

In similar emergency situations, and when immediate action is necessary, DOD has relied upon the so-called "Feed and Forage" Act (41 U.S.C. 11), enacted in its original form in 1861 during the Civil War to incur obligations on behalf of the United States for such items as "clothing, subsistence, forage, fuel, quarters, transportation, or medical and hospital supplies" that exceed available appropriations but which may not exceed the necessities of the current year. The Secretary of Defense is required to advise Congress immediately of the exercise of this authority and to report quarterly on

⁵These amounts do not include the funds appropriated directly to the services' military personnel accounts for Bosnia and Southwest Asia.

⁶This includes \$220 million originally transferred from the Fund to the Air Force and the Navy but later reallocated to the Army to cover its Kosovo operation costs.

estimated obligations incurred under this authority. This authority is unfunded and requires a subsequent appropriation to liquidate any obligations that are incurred. DOD last used this authority in 1994 during an operation in Haiti.

Services Differ in How They Determine Some Incremental Contingency Costs

The DOD regulation on contingency operations provides guidelines for determining incremental costs and cost categories for those components participating in contingency operations. Our assessment of how the services determine their contingency operations costs raised two issues. First, the Air Force and the Navy's Atlantic and Pacific Fleets differ in how they identify their incremental flying hour costs for contingencies and are reimbursed at different rates for similar levels of activity. Second, the Air Force is requesting \$47.2 million in infrastructure reconstitution costs in the supplemental request for Kosovo. The regulation on reconstitution does not provide for costs generated by infrastructure wear and tear at home stations as an allowable incremental cost.

Methods Used to Calculate Incremental Flying Hour Costs Can Lead to Different Reimbursements

The DOD regulation on contingency operations directs the services to report only those incremental operation tempo costs they incur as a direct result of a contingency. The regulation recognizes that flying hours in support of contingency operations overlap to some degree with each service's flying hour program, which is funded through its annual operation and maintenance account. However, the regulation authorizes each specific command that is involved in the operation to develop its own methodology for separating funded flying hours from contingency flying hours to determine the additional incremental costs attributable to the contingency. As a result, the Air Force and the Navy's Atlantic and Pacific Fleets calculate their incremental flying hours differently and are reimbursed at different rates for similar levels of flying activity.

The Air Force incurs incremental costs providing flight support to contingencies with its active, National Guard, and Reserve forces. In fiscal year 2000, the Air Force has decided to absorb the cost of this contingency-related flight support within its base flying hour budget for active forces. The Air Force will need to reprogram funds or ask for additional funding for any incremental contingency-related flying hours if its base flying hour budget for active forces is fully used. This decision was made because the Air Force had under executed its active forces' base flying hour budget each year from fiscal year 1994 through 1998, yet sought and received additional funding for its incremental contingency flying hour costs. Air

Force officials said that service leadership became concerned that this historic under execution could lead to a future reduction in the total flying hour program. The Air Force will still seek reimbursement, however, for all incremental contingency operations flying hour costs incurred by its National Guard and Reserve units. These units tend to fly all the hours in their base flying hour budget and participate in contingencies on an "as needed" basis.

The Navy's Atlantic and Pacific Fleet aircraft have been involved in contingency operations, and each fleet has developed its own methodology for calculating incremental flying hour costs in support of these operations. The Atlantic Fleet's methodology determines how much its deployed aircraft would have flown for training each month of the deployment had there been no contingency. This scheduled flying hour requirement is already funded through the Navy's annual operation and maintenance appropriation. When the deployed units' monthly flying hour costs exceed this base funded budget, the fleet counts the excess as an incremental cost of the contingency.

The Pacific Fleet's methodology for determining contingency flying hour costs considers the training value of each flight. It considers all flying hours flown in the contingency area as being in support of the contingency but recognizes some training value in 40 percent of the hours flown. The remaining 60 percent of hours flown are considered to have little or no training value and are claimed as an incremental contingency cost. Depending on the number of hours flown, this methodology could result in a higher rate of reimbursement than the Atlantic Fleet's methodology.

Air Force Facility Reconstitution Decision Could Increase Total Contingency Operations Costs

As part of the fiscal year 2000 supplemental request, the Air Force has requested funds for what it described as the reconstitution of infrastructure, such as buildings and runways, used during contingency operations in Kosovo. The DOD regulation on contingency operations permits the services to charge reconstitution costs for cleaning, inspecting, maintaining, replacing, and restoring equipment owned by a participating unit. Another section of DOD's regulation discusses facilities and base support. This section allows incremental costs to be incurred for, among other things, maintenance of billeting, camps, airfields, staging areas, and other facilities, but only away from home station. DOD officials said that while the regulation does not address infrastructure and facilities reconstitution, it is meant to be a guide and is not all inclusive. These officials believe that some home station costs may be attributable to

contingency operations. They stated that the regulation needs to be clarified to include guidance on the extent to which infrastructure maintenance and repair costs at home stations incurred while supporting contingencies should be considered an incremental cost.

Some projects for which the Air Force has requested funding are at home station bases, such as Spangdahlem Air Force Base in Germany, and others are at bases that are used only to support contingencies, such as Moron Air Force Base in Spain. Some of these projects are related to the Kosovo operation; however, some repairs result from years of use over several contingency operations. For example, one project includes restoring contingency operations dormitories at Moron Air Force Base at a cost of \$3.9 million. According to Air Force officials, this project is justified as a reconstitution cost based on heavy use in Kosovo operations, as well as being a refueling base for air traffic headed into Bosnia and Southwest Asia over the years of those operations. Another project is for restoring airfield pavements at Spangdahlem Air Force Base in Germany at a cost of \$2 million. According to Air Force documents, the base was used for combat missions and transient heavy cargo aircraft during the Kosovo air campaign. However, this base is also home to the 52nd Fighter Wing and is used for regular operations.

The Air Force is the only DOD component to request contingency operations funding for infrastructure maintenance and repair projects, which are normally funded from operation and maintenance accounts. Requests for funding for such projects from the Overseas Contingency Operations Transfer Fund could increase if other DOD components follow this practice.

Army Mission Rehearsal Exercises Prepare Troops for Peacekeeping Deployments

The Army trains primarily to fight major theater wars at a high level of intensity. However, Army units deploy for other operations, such as peacekeeping, that involve lower levels of intensity and unique or different skills. The Army uses mission rehearsal exercises to prepare and rehearse those skills the task forces deploying to Bosnia or Kosovo may need to successfully conduct the operation. Costs for these exercises are included as incremental contingency operations costs and are offset against the cost of training that was planned for the unit, but canceled or modified because of the deployment.

Mission Rehearsal Exercises Give Units an Opportunity to Practice Unique Skills

Mission rehearsal exercises have contributed to the success of contingency operations in the Balkans, according to Army officials. These exercises have provided the opportunity to develop the different skills, such as controlling crowds and communicating with local nationals, needed for contingency operations that are not covered in regularly scheduled training and to practice these skills in a realistic training environment specifically tailored to the operation. The officials also believe that integrating low intensity conflict training into the scheduled training rotations could shorten the days needed for the mission rehearsal exercise, but not eliminate the need for the exercises.

The rehearsal exercises are tailored to the specific operation and last from 17 to 24 days, including the deployment to and from the training area. They are scheduled after units are identified to deploy to support a specific contingency operation. Four mission rehearsal exercises are scheduled for fiscal year 2000, two to prepare for Bosnia deployments and two to prepare for Kosovo deployments. The Bosnia rehearsal exercises are conducted at the Joint Readiness Training Center, Fort Polk, Louisiana. Mission rehearsal exercises for Kosovo are conducted at the Combat Maneuver Training Center at Hohenfels, Germany.

In our prior work,⁷ we noted that ground combat commanders differed on when to provide peace operations training. Some believed it should be included in standard unit training and others believed it should be done after the units have been notified of their participation. According to Army officials responsible for training units in Europe, this low intensity conflict training is now being integrated into regularly scheduled training rotations at the Combat Maneuver Training Center. However, this training is not tailored to any specific contingency as is the mission rehearsal exercise.

Mission Rehearsal Exercise Costs Are Considered Incremental

The Army considers mission rehearsal exercise costs to be contingency costs because they relate to specific deployments to contingency operations. The average total cost for a mission rehearsal exercise to prepare for a Bosnia rotation has been about \$9 to \$11 million. The average cost for a mission rehearsal exercise for a Kosovo rotation has been about \$14 to \$15 million. The costs are higher for the Kosovo rotations because of

⁷Peace Operations: Effect of Training, Equipment, and Other Factors on Unit Capability (GAO/NSIAD-96-14, Oct. 18, 1995).

the larger number of personnel that participate in these mission rehearsal exercises. The units that participate and the training center where they take place both incur some of the costs, which include such things as personnel travel, equipment transportation, operation tempo, and other support costs.

For example, the Brigade Task Force from the 10th Mountain Division at Fort Drum and associated and support units participated in a mission rehearsal exercise in May 1999 for the deployment to Bosnia in August 1999. This mission rehearsal exercise cost \$9.9 million and involved 6,405 personnel who deployed to the Joint Readiness Training Center. The cost included \$5.2 million for transportation and travel expenses for personnel and transportation of equipment to and from the training center. The cost also included \$1.9 million for air and ground operating tempo during the exercise and for the movement of the unit's aircraft to and from the exercise. Other cost items included \$2.8 million for role players and linguists, construction of training facilities, support at the training center, contractor support for developing the exercise, observers and controllers for the exercise, and other miscellaneous items.

After these costs are submitted, the costs of the mission rehearsal exercises are offset against the costs that would have been incurred for other exercises and training that the units had scheduled before the deployment was tasked but which were canceled or modified after the unit was notified of the deployment. The Army considers any remaining costs after the offset to be incremental to the contingency operation.

Conclusions

The DOD regulation on contingency operations permits the services considerable latitude in identifying their incremental contingency operations costs. Whatever methodology each service chooses to use, however, should result in similar levels of reimbursement for similar levels of activity, particularly within the same service. Depending on the hours flown in support of contingency operations, the different methodologies the Navy uses will not result in similar reimbursements. The DOD regulation does not provide for infrastructure wear and tear at home stations as an allowable contingency cost. However, DOD officials believe that some of this wear and tear is appropriately attributed to contingency operations and plan to modify the regulation to address these costs. As part of the emergency supplemental request for Kosovo operations, the Air Force has requested millions of dollars in costs for wear and tear on home

station infrastructure and related facilities used in contingency operations, which the other services have not.

Recommendations

To insure consistency in estimating and reporting incremental contingency operations costs, we recommend that the Secretary of Defense determine whether a common methodology for developing incremental flying hour costs is feasible, and, if so, revise the regulation on contingency operations to reflect that methodology. At a minimum, we recommend that the Secretary of Defense direct the Secretary of the Navy to develop and apply a single methodology for determining the incremental flying hours within the Navy.

Because the regulation on contingency operations does not provide for wear and tear on infrastructure and related facilities at home stations as a contingency operation cost, we recommend that the Secretary of Defense modify the regulation to specifically state circumstances under which home station infrastructure wear and tear is allowable as a contingency operation cost.

Agency Comments and Our Evaluation

In oral comments on a draft of this report, the Associate Director, Active Force Operations Team, and the budget analyst for contingency operations, Office of the Under Secretary of Defense (Comptroller) and service budget officials responsible for contingency operations costs generally concurred with the information presented. In discussing a common methodology for determining incremental contingency operation flying hours, while the Navy's Atlantic and Pacific Fleets use different methodologies, DOD officials noted that the Air Force and the Atlantic Fleet use similar methods for determining incremental flying hours. The Navy representative stated that although the Navy has not yet determined a methodology, a single methodology for calculating incremental flying hours would be in place for use in fiscal year 2001. If the Navy decides to adopt the Atlantic Fleet's methodology, then the intent of our recommendation for a common methodology would be met. If, however, the Navy decides to adopt the Pacific Fleet's methodology, there would continue to be a disparity in methodologies between the Air Force and the Navy and that methodology could result in a higher reimbursement rate for incremental hours flown.

DOD officials agreed that infrastructure wear and tear at home station is not provided for in the DOD regulation on contingency costs. However,

they noted that some home station infrastructure wear and tear may be attributable to contingency operations. They stated that they plan to modify the regulation to include guidance on these types of costs.

In commenting on our analysis of costs through the end of the year, the officials stated that at this point in the fiscal year the cost reports, taken on their own, may not present an accurate picture of year end costs. Based on our discussion with DOD officials and more current cost data, we revised our cost analysis to focus on how lower troop levels in the Balkans may lead to lower overall fiscal year 2000 costs, notwithstanding the fact that this could also lead to higher contractor costs. We also revised the report to reflect other technical comments as appropriate.

Scope and Methodology

We limited our review to those contingencies for which DOD has sought or is seeking funding from the Overseas Contingency Operations Transfer Fund. To identify and assess the contingency cost information contained in this report, we conducted work at the Office of the Secretary of Defense; the Joint Staff; the Departments of the Army, the Navy, and the Air Force; U.S. Army Forces Command; U.S. Army Europe; 10th Mountain Division, Fort Drum, New York; 1st Infantry Division, Wurzburg, Germany; U.S. Navy Atlantic Fleet; U.S. Navy Pacific Fleet; Naval Air Forces Pacific; U.S. Pacific Command; U.S. Army Pacific; Marine Forces Pacific; Air Force Air Combat Command; U.S. Special Operations Command; and the Defense Information Systems Agency. At these locations, we reviewed contingency operations cost reports; DOD budget documents for fiscal years 1999, 2000, and 2001; training plans; Joint Staff training policy regulations; and documents that supported contingency-related costs. We did not verify the data used by the Defense Finance and Accounting Service to create the contingency operations cost reports.

We performed our work between January and May 2000 in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Honorable Jerry Lewis, Chairman, and the Honorable John P. Murtha, Ranking Minority Member, Subcommittee on Defense, House Committee on Appropriations; the Honorable William Cohen, Secretary of Defense; the Honorable William J. Lynn, Under Secretary of Defense (Comptroller); and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies of this report will also be made available to others upon request.

If you have any questions on this report, please call me on (202) 512-5140 or the contact listed in appendix I.

Carol R Schuster

Carol R. Schuster
Associate Director
National Security Preparedness Issues

GAO Contact and Staff Acknowledgments

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Steve Sternlieb (202) 512-4534

Acknowledgments

In addition to the name above, Ann Borseth, Alan Byroade, Glenn Furbish, and Herbert Dunn made key contributions to this report.

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